

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

CIAE-00 DODE-00 INR-10 NSAE-00 PA-04 USIA-15 PRS-01

SCEM-02 INT-08 SCI-06 COME-00 DRC-01 /146 W

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R 050505Z JAN 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 0140

C O N F I D E N T I A L MANILA 0149

E.O. 11652: GDS

TAGS: ENRG, EGEN, RP

SUBJECT: PETROLEUM -- GOP EFFORT TO RENEW GULF CONTRACT
WITH FILOIL

1. AMBASSADOR AND ECCOM COUNSELOR SEPARATELY APPROACHED JANUARY 4 BY GOP OFFICIALS TO SUPPORT EFFORT OBTAIN RENEWAL OF GULF CRUDE OIL SUPPLY CONTRACT WITH FILOIL. THIS CONTRACT, UNDER WHICH CRUDE SUPPLIES CEASE FLOWING JANUARY 31, ACCOUNTS FOR MORE THAN 7 M BBLS/YEAR OR OVER 10 PERCENT OF PHIL NEEDS. AT THAT POINT, FILOIL REFINERY WILL CEASE TO OPERATE. TO AVOID THIS EVENT ALONG WITH SIZEABLE CUT IN LEVEL PRODUCT SUPPLIES TO MARKETS, GOP SEEKS ON URGENT BASIS TO OBTAIN GULF COMMITMENT TO CONTINUE SUPPLY AT PREVIOUS CONTRACT LEVEL FOR AT LEAST A YEAR.

2. BASED ON CHECKS WITH SEVERAL CONTACTS, WE NOW SEE PHILIPPINE DEMAND/SUPPLY SITUATION (FIGURES IN MILLIONS BARRELS) IN CY '74 AS FOLLOWS. TOTAL DEMAND 65-70, ALLOWING FOR SOME GROWTH AND ASSUMING SOME CUTS IN DEMAND DUE TO PRODUCT PRICE INCREASE. VISIBLE SUPPLY FROM ESTABLISHED SOURCES 50-55, DEPENDING ON FINAL CONFIRMATION THAT PHILIPPINES A FRIENDLY COUNTRY -- GOP AND OIL COMPANY SOURCES SO FAR UNABLE CONFIRM THAT YAMANI STATEMENT INCLUDED PHILIPPINES.

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SHORTFALL THUS IN RANGE 15 MILLION BARRELS, OF WHICH PREVIOUS

GULF CONTRACT REPRESENTED ALMOST HALF. AT LIMITS CURRENT DEMANDED SUPPLY PROJECTIONS, APPARENT SUPPLY SHORTFALL RANGES FROM 20-30PERCENT OF DEMAND, WITH CONSEQUENT SEVERE EFFECT ON ALL MODERN SECTORS OF ECONOMY IF EITHER END OF RANGE FULLY MATERIALIZES.

3. WHILE WE INCLINED THINK THAT MOST LIKELY SITUATION INDICATES 20PERCENT SHORTFALL, WE SEE OUR INTERESTS AND THOSE OF US OIL COMPANIES OPERATING HERE BEST SERVED BY AVOIDING ANY UNIQUE SUPPLY DISADVANTAGE TO PHILIPPINES VIS A VIS COUNTRIES SIMILARLY CLASSED BY ARABS. ALTHOUGH WE HAVE TOLD COMPANY OFFICIALS THAT PROBLEM MUST BE VIEWED IN THIS WAY, WE ALSO HAVE TOLD GOP OFFICIALS AT HIGHEST LEVELS THAT NO

LIKELY WAY EXISTS TO ASSURE CRUDE SUPPLIES EXCEPT BY BUYING AT CURRENT PRICES AND SETTING PRODUCT PRICES HERE AT PROFITABLE LEVELS. THIS LOGIC APPEARS, IF BELATEDLY, TO HAVE TAKEN HOLD, AND WE RELIABLY INFORMED THAT MARKET PRICES ONCE AGAIN WITH RISE NEXT WEEK, BY ABOUT TWO-THIRDS ON PREMIUM GASOLINE, TO 65 US CENTS PER GALLON.

4. WITH FOREGOING IN MIND WE HAVE TOLD GOP OFFICIALS (COLLANTES AND VELASCO) THAT WE WOULD SEND MESSAGE TO DETERMINE WHETHER GULF MIGHT CONSIDER RENEWING FILOIL CONTRACT. WE HAVE CALLED ATTENTION TO GULF'S WORLDWIDE TIGHT CRUDE SITUATION, AND HAVE HELD OUT NO HOPE. IN TALKS WITH VELASCO AND INDUSTRY SEC. PATERNO, WE HAVE STRESSED THAT THERE PROBABLY WOULD BE NO GULF INTEREST, UNLESS IT WERE CLEAR THAT PRICING COULD BE AT LEAST IN LINE WITH CURRENT PRICES OF MAJORS FOR EQUITY CRUDE IN THIS MARKET. BOTH EXPRESSED FULL UNDERSTANDING THIS POINT AND SAID GULF COULD BE SO INFORMED.

5. ACTION REQUESTED. WE BELIEVE IT IS IN THE US INTEREST TO SUPPORT GOP AND FILOIL EFFORTS TO OBTAIN RENEWAL OF GULF CONTRACT AT LEAST FOR 1974. WE THEREFORE URGE DEPARTMENT CONTACT GULF OFFICIALS PITTSBURG TO URGE THAT IF AT ALL POSSIBLE GULF CONTACT GOP TO SEE IF A MUTUALLY SATISFACTORY

CONTRACT CAN BE REACHED. ACTION ON THIS APPROACH IS REQUESTED AS SOON AS POSSIBLE. MISSION WOULD APPRECIATE PRIORITY
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READING ON GULF RESPONSE.
SULLIVAN

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NNN

Message Attributes

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Disposition Date: 28 MAY 2004
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